



August 20, 2009

Charles L. A. Terreni, Esquire  
Chief Clerk/Administrator  
The Public Service Commission of South Carolina  
P. O. Drawer 11649  
Columbia, South Carolina 29211

RE: Docket No. 2009-168-E  
Progress Energy Carolinas, Inc.'s Motion for Partial Waiver of  
Commission Rules 103-331 and 103-336

Dear Mr. Terreni:

Attached for filing in the above-reference docket are twenty-five (25) copies of the Testimony of Elaine R. McCallister, in accordance with Commission's directive dated June 5, 2009.

Sincerely,

A handwritten signature in black ink that reads 'Len S. Anthony' with a stylized flourish at the end.

Len S. Anthony  
General Counsel  
Progress Energy Carolinas, Inc.

LSA:mhm

Attachment

cc: Shealy Boland Reibold  
Catherine E. Heigel  
K. Chad Burgess  
M. John Bowen, Jr.  
Margaret M. Fox

**DIRECT TESTIMONY**  
**OF**  
**PROGRESS ENERGY CAROLINAS, INC. WITNESS**  
**ELAINE McCALLISTER**  
**SCPSC DOCKET NO. 2009-168-E**

1   **Q:   Please state your name and position.**

2   A:   My name is Elaine R. McCallister, and my position is Senior Financial Specialist –  
3       Customer and Marketing Services for Progress Energy Service Company, LLC, a service  
4       company owned by Progress Energy, Inc. (the “Company”).

5   **Q:   On whose behalf are you presenting this testimony?**

6   A:   I am appearing as a witness on behalf of Progress Energy Carolinas, Inc. (“PEC”).

7   **Q:   Briefly state your background and experience relevant to this proceeding.**

8   A:   I have a Bachelor’s Degree in Business Administration from Tampa College. I have been  
9       with Florida Power Corporation (now Progress Energy) for 23 years, and have been in  
10      my current position since 2004, working for Progress Energy’s Customer Accounting  
11      Operations supporting both Florida and the Carolinas. I am responsible for forecasting  
12      write-offs, managing and analyzing Progress Energy’s non-residential portfolio, and  
13      developing strategies to mitigate exposure on both the residential and commercial  
14      accounts. During my career with Progress Energy, I have managed Florida’s collection  
15      process, which included Revenue Theft Recovery, bankruptcies, final accounts, and  
16      financial risk assessment. I served on the integration team during the merger between

1 Florida Power Corporation and Carolina Power & Light Company and have experience in  
2 the call center, business office, and computer operations.

3 **Q: In your capacity as Senior Financial Specialist, do you interact directly with**  
4 **nonresidential customers of PEC and applicants for service with regard to**  
5 **determination of deposits?**

6 A: Yes, I frequently become involved in issues regarding deposits for nonresidential  
7 customers in all three of Progress Energy's jurisdictions (North Carolina, South Carolina,  
8 and Florida)—whether or not a deposit should be required, on what legal/regulatory  
9 grounds is the deposit justified, and so on.

10 **Q: Are you familiar with PEC's request for partial waiver of the Public Service**  
11 **Commission of South Carolina's ("the Commission") Rules 103-331 and 103-336**  
12 **regarding criteria for requiring deposits of new and existing nonresidential**  
13 **customers in South Carolina?**

14 A: Yes, I am very familiar with it; in fact my work group's concern about the financial  
15 impact of the existing Commission Rules 103-331 and 336 was a prime motivator in  
16 PEC's decision to file the request for partial waiver of these rules.

17 **Q: Are you familiar with the testimony of Barbara G. Yarbrough filed in this docket by**  
18 **Duke Energy Carolinas, LLC (hereinafter referred to as "Duke") on August 20,**  
19 **2009?**

20 A: Yes, I am.

21 **Q: Does Duke's testimony accurately represent, in general terms, the concerns that**  
22 **motivated PEC to file its request for waiver of Commission Rules 103-331 and 336**  
23 **in March 2009?**

1 A: Yes.

2 **Q: If the Commission were to expand the waiver it granted to Duke in Order 2005-600**  
3 **in Docket No. 2004-169-E to PEC, and grant waiver of Rule 103-336, would that**  
4 **satisfactorily address PEC's concerns about nonresidential deposits in South**  
5 **Carolina?**

6 A: Yes, with the caveat that PEC wishes to use the same credit evaluation procedures and  
7 practices in both North and South Carolina. This will allow PEC to standardize its  
8 internal procedures and avoid confusion and complaints from parent companies with  
9 commercial and/or industrial customers in both states. Consistency in this area is critical.

10 **Q: Is PEC agreeable to Duke's recommendation (on page 10 of Ms. Yarbrough's**  
11 **testimony) that "the companies provide ORS with a copy of their respective risk rating**  
12 **criteria upon request by ORS"?**

13 A: Yes.

14 **Q. Is PEC thus taking the position that the Commission should extend to PEC the**  
15 **partial waiver of Rule 103-331 that it granted Duke in Docket No. 2004-169-E and**  
16 **should also adopt Duke's recommendation on Page 9 of Ms. Yarbrough's testimony**  
17 **that the Commission grant a waiver of Rule 103-336 as well?**

18 A: Yes.

19 **Q. Please describe the credit evaluation procedures and practices that PEC would**  
20 **propose to implement in South Carolina if the Commission grants the request to**  
21 **extend the Duke waiver to PEC.**

22 A: PEC would collect deposits from new nonresidential customers (or upgrade existing  
23 deposits for existing nonresidential customers) based on financial solvency as well as  
24 their pay record with PEC. If the deposit is calculated to be less than \$5000, the decision



1 would be based on pay record and Experian Commercial Credit score (Experian, like Dun  
2 & Bradstreet, is a credit reporting agency that evaluates creditworthiness of customers  
3 based upon data provided from verified third parties, including payment tradelines and  
4 public information including tax liens, judgment filings, and other indicators). If the  
5 customer's Experian score is 70 or less, and/or the customer's pay record with PEC  
6 includes two or more consecutive 30-day arrears or more than two nonconsecutive 30-  
7 day arrears in the past 24 months, PEC would assess a deposit. If the aggregate deposit  
8 for a privately-held company is calculated to exceed \$5000, the decision would be based  
9 on the same pay record criteria and a review of the company's audited financial data.  
10 The criteria PEC would use to evaluate the company's financial solvency in that situation  
11 would be nearly identical to the information identified by Duke in Ms. Yarbrough's  
12 testimony in response to the question "Please describe the partial waiver of Rule 103-  
13 331" beginning on Page 4, with the exception that PEC also utilizes information from  
14 credit rating agencies such as Experian, and does not typically consult Dun & Bradstreet.  
15 For a publicly-held company, PEC would assess a deposit if the above pay record criteria  
16 are not met, or the customer has a Moody's rating of less than Ba2, or a Standard &  
17 Poor's rating less than BB. PEC would refund the deposit when the customer's pay  
18 record and solvency exceed the same minimum criteria as above, except that if the  
19 deposit is less than \$2500, PEC would rely solely on pay record (i.e. in accordance with  
20 the present wording of Rule 103-336). In lieu of a cash deposit, PEC would accept a  
21 standby irrevocable letter of credit, surety bond, or guarantee from an investment-rated  
22 parent company. PEC would also be agreeable to a deposit based on one month's usage  
23 if the customer agrees to pay monthly electric bills by means of bank draft.

1   **Q:    In its testimony, Duke addresses situations in which the rules in Duke's North**  
2       **Carolina jurisdiction have allowed Duke to collect deposits on nonresidential**  
3       **customers who would have met the criteria for avoiding a deposit in the South**  
4       **Carolina Rule 103-331, but who were nevertheless in financial difficulty and**  
5       **ultimately filed for bankruptcy. Are there similar case histories in which PEC's**  
6       **deposit policies in its North Carolina jurisdiction have saved ratepayers money?**

7   **A:**   Yes. A classic case is the well-known Winn-Dixie grocery store chain, which had  
8       numerous stores throughout PEC's service territory and indeed throughout the southeast.  
9       Despite the fact that the individual stores continued to pay their electric bills  
10      satisfactorily, business analysts publicly warned that the parent company was in rapidly  
11      deteriorating financial health. PEC was able to secure deposits that avoided losses of  
12      approximately \$262,000 before Winn-Dixie went out of business and all its stores closed.  
13      And sadly, in today's economy there is a growing list of other established companies like  
14      Circuit City and Movie Gallery/Hollywood Video which have declared bankruptcy  
15      recently as well. Counting those two as well as Forgitron LLC, Chesapeake  
16      Pharmaceuticals, Sound Advice, Elizabethtown Power LLC, and Lumberton Power LLC,  
17      PEC's ability to collect deposits on these companies in North Carolina has avoided losses  
18      of an additional \$285,000.

19   **Q:    Likewise, does PEC have specific case histories similar to Duke's in which South**  
20       **Carolina's existing rules have precluded PEC from securing a deposit from a South**  
21       **Carolina nonresidential customer who has a good pay record with PEC, but who**  
22       **subsequently goes bankrupt or closes its doors?**

1 A: Yes, there are a number of cases in which PEC has been unable to collect deposits from  
2 companies with widely-reported terminal financial problems that ultimately led to  
3 bankruptcy or closure. The most glaring example to date in PEC's service territory is  
4 Pilgrim's Pride, which had a processing plant on PEC's system in Sumter, South  
5 Carolina. The plant paid its electric bills satisfactorily, but the parent company's  
6 financial decline was universally known—it was even the subject of a Wall Street Journal  
7 feature story. PEC petitioned the Commission for a one-time waiver of Rule 103-331 to  
8 allow PEC to collect a deposit from Pilgrim's Pride, but the company went bankrupt  
9 shortly thereafter, and PEC suffered a loss of some \$490,000. But there have been many  
10 other high-profile bankruptcies in South Carolina in the last several years, including  
11 among others Anvil Knitwear, Blumenthal Mills, Delta Mills, Smurfit-Stone Container,  
12 and Constar International, all of which add up to more than \$880,000 loss because PEC  
13 was not able to secure their accounts.

14 **Q: How do these losses impact PEC's other customers?**

15 A: Such losses are reflected in PEC's uncollectible accounts, which are a part of PEC's  
16 revenue requirement, which in turn drives PEC's rates. Reducing the dollar amount of  
17 PEC's uncollectibles reduces PEC's overall revenue requirement. This leads to lower  
18 rates to PEC's customers. Thus, the proposed rule waiver will ultimately cause PEC's  
19 retail rates to be lower than they otherwise would be.

20 **Q: Does that conclude your pre-filed direct testimony?**

21 A: Yes it does.